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SUBJECT: BOTSWANA ECONOMIC BRIEFS APRIL 2009

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¶1. This is the fourth edition of U.S. Embassy Gaborone's Botswana Economic Briefs, covering economic and commercial news from March ¶2009. Topics of this edition are:

- Moody's Downgrades Botswana
- Botswana Inflation likely to hit Single Digit in 2009
- Botswana Ranked No. 1 in Africa for Mining Investment
- Relief as BCL Mining company Reduces Retrenchment
- Diamond Trading Company Reverses Sales Initiative
- Aviation News: Changes in SAA and Air Botswana Service
- Botswana Tax Revenues to fall
- Botswana to come up with Anti-dumping Regulations

Moody's Downgrades Botswana

¶2. Botswana's foreign currency rating outlook has been cut from positive to stable because of the slump in global diamond demand, the country's main source of budget and export revenue. According to Moody's, the current crisis represents a serious risk for Botswana's diamond dependent economy. Moody's statement says that the country's reserves are at a risk of being depleted by an extended decline in diamond output and large ongoing budget deficits. Last month Standard and Poor's reaffirmed Botswana's investment grade sovereign credit rating of 'A/A-1' for foreign currency and 'A+/A-1' for local currency but revised the outlook from 'stable' to 'negative'. (Botswana Gazette, March 18-24 March 2009)

Botswana Inflation likely to Hit Single Digit in 2009

¶3. Data from the Central Statistics Office released this week indicate that in the month of February, the inflation rate stood at 11.7 percent, down by 1.1 percentage points from 12.8 percent in January 2009. Observers say the falling numbers are in line with expectations as food and energy prices have been stabilizing. The Fund Manager of Investec, Bakang Seretse pointed out that the February 2009 inflation stood at 11.7 percent much better their expectations of 12.2 percent from a previous 12.8 percent with the biggest contributors being food and alcoholic beverages. The CSO data showed that the urban villages inflation rate registered a decrease of 0.6 of a percentage point, from 12.5 in January to 11.9 in February while the rural villages inflation rate dropped by 1.6 percentage points from 16.3 percent in January to 14.7 percent in February. The cities and towns' inflation rate also went down by 1.0 percentage point from 11.5 percent in January to 10.5 percent in February. Investec said with inflation coming down, it gives Bank

of Botswana an opportunity to cut rates aggressively. Their policy setting is now geared towards stimulating non-inflation growth. (Sunday Standard, March 22-28, 2009)

Botswana Ranked No. 1 in Africa Mining Investment

¶4. Botswana has once again been named the foremost preferred destination for mining and mineral investment in Africa, according to the recently released Fraser Institute Survey. This year's Fraser Institute Survey of Mining companies involved more than 3000 mining entities. 2009 marks the fourth year in a row that Botswana has been ranked the preferred mining destination in Africa starting from the 2005/06 survey. According to the survey, mining companies throughout the world ranked Botswana first in Africa in terms of political stability, security, labor/employment agreements, taxation and environmental regulations, though she ranked poorly in the infrastructure development category. Botswana was rated ahead of many African countries and eclipsed many developed countries with an index score of 64.9. The survey of Mining Companies 2008/09 also indicates that mining companies have a gloomy outlook for the industry, with at least 30 percent of exploration companies expected to shut down this year and in years to come. (Mmegi March 17, 2009)

Relief as BCL Mining Company Reduces Retrenchment

¶5. Botswana's mining sector continues to sink deeper into trouble, but there was relief at BCL in Selebi Phikwe after the mine reduced the number of employees to be retrenched from 348 to 200. The BCL Public Relations and Communications Superintendent Mr. Tirelo Kganelo said the numbers were reduced after the mine froze external recruitment for positions affected by the retrenchment. Despite the

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reduction in the number of retrenched employees, BCL remains in the grips of a crippling recession caused by a sharp drop in metal prices. An economic analyst said while the number of employees to be retrenched at BCL is a lot less than expected, the town of Selebi-Phikwe remains in dire need of new investment away from mining. According to the General Manager Mr. Montwedi Phathi, the BCL mine is tapping into its reserve for survival. He said depressed copper and nickel prices are another factor which makes diversification paramount. Comment: Economic analysts predict the recession will last between 18 and 24 months, but also warn it will take longer for the mining sector to recover. End comment. (Mmegi March 13, 2009)

Diamond Trading Company (DTC) Reserves Sales Initiative

¶6. Botswana's Diamond Trading Company (DTC) has reversed a recent sales policy initiative to sell diamonds outside its Sightholder system. The DTC Managing Director Varda Shine announced the company would explore options of making available to the secondary market goods that are not taken up by the DTC Sightholders or selected clients. The rough diamonds offered in this additional sales period will include boxes remaining unsold from Sight week and will be made available to all Sightholders wishing to inspect them. DTC is estimated to have sold about US\$ 125 million during its second 2009 Sight in February, bringing the first two months of 2009 to US\$ 220 million. (Mmegi, March 10, 2009)

Aviation News: Changes in SAA and Air Botswana Service

¶7. On March 23 South African Airways began offering flights from Johannesburg to Gaborone twice daily Sunday to Friday and once on Saturdays. The airline is using an Airbus 319 on the route, equipped with both economy and business class cabins and with a passenger capacity of 110. SAA's sister airline South African Express also continues to serve the Johannesburg-Gaborone route daily using much smaller regional turboprops. Air Botswana announced this month that it has purchased two new ATR 72-500 aircraft and began service on new routes March 31. Air Botswana has

added a roundtrip twice a week between the tourist destinations of Maun and Kasane as well as new roundtrip service from Johannesburg to Francistown and Johannesburg to Kasane. Kenya Airways opened an office in Gaborone in late March and announced that they intend to begin direct service from Nairobi to Gaborone in the near future.

18. COMMENT: Until this month, South African Express and Air Botswana flights to Johannesburg were the only real options for travelers who need to connect from Gaborone to the rest of the world. The introduction of daily service on SAA using larger jets has improved options for both tourists and business travelers. The Airbus 319 has a much larger passenger and cargo capacity and this brings new competition into the lucrative Gaborone-Johannesburg route. SAA may also be priming the pump for the 2010 World Cup, as its new service could allow some soccer fans to stay in Gaborone hotels and also get to Johannesburg quickly. If Kenya Airways follows through on its intent to offer direct service from Gaborone to Nairobi, that would also give Botswana passengers a welcome new option. Certainly some tourists may wish to see Botswana and Kenya without transiting busy Oliver Tambo airport in Johannesburg, and Botswana residents with business in East Africa or even North Africa/Middle East may find a Nairobi connection very convenient.
END COMMENT.

Botswana's Tax Revenues to fall

19. Analysts have painted a gloomy picture for Botswana's earnings in 2009. An analyst at Motswedi Securities said the current economic situation will have an impact on the country's tax revenue. The analyst said as the economy continues to slow down companies' profitability will decline and thus pay lower taxes to the Government. Corporate tax and Value Added Tax (VAT) earnings will be low this year and will also fall largely because of the squeeze on income which could reduce consumer purchasing power. The analysts explained that the government will have to tap into the foreign reserves in order to cover the deficit. He advised that in order to counter the possible consequences of drawing on foreign reserves the government should consider raising bonds in the local markets to raise revenue so that if the crisis is prolonged the government would not have to draw everything from the reserves.
(Botswana Gazette, March 11-17, 2009)

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Botswana to come up with Anti-Dumping Regulations

110. The Government intends to implement the Standard Import Inspection Regulations (SIIR), in an attempt to effectively deal with the dumping of substandard goods on Botswana's soil. The Botswana Bureau of Standards (BOBS) warned that it had come to the realization that Botswana is now being used as a dumping site because of her dependence on foreign commodities. BOBS will be implementing the SIIR with effect from April 1, 2009. The purpose of these regulations is to reduce importing of substandard goods into the country and also to health and safety of the people, animals, plants and environment. The move is expected to get an overwhelming support from the Southern African Customs Union (SACU), the Southern African Development Community (SADC) and the European Economic Partnership Agreements (EPAs), which want to level trading arrangements between Botswana and its trading partners. The Director of Regulatory Compliance at BOBS, Botsile Kebapetse said the aim of the law is to align the government to good regulatory practices applied world-wide, which call for the safety of products for consumption. (Sunday World March 8-14, 2009)

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